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TO SECSTATE WASH DC IMMEDIATE 1592

C O N F I D E N T I A L SECTION 01 OF 03 OECD PARIS 11328

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, OECD

SUBJECT: CIEC: G-19 ATTITUDES ON EVE OF APRIL

COMMISSION MEETINGS

FOR EB - BOSWORTH

BEGIN SUMMARY. AT DINNER FUNCTION APRIL 14, MISOFF PARTICIPATED IN TOUR D'HORIZON WITH WORKING-LEVEL G-19 REPS RE ASSESSMENT OF CIEC TO DATE AND FUTURE OUTLOOK FOR DIALOGUE. G-19 OFFICIALS OUTLINED SCENARIO FOR CONCLUSIONS TO CIEC INVOLVING POLITICAL LEVEL COMMITMENTS INVOLVING DC CONCESSIONS IN AREAS OF RAW MATERIALS, DEVELOPMENT AND FINANCE IN RETURN FOR G-19 "CONCESSIONS" IN ENERGY AREA, INCLUDING INDEXATION ARRANGEMENT AND GUARANTEE FOR COMMERCIAL SECURITY OF SUPPLY. G-19 REPS SAID MAJOR TEST OF DC RESPONSIVENESS AND COMMITMENT TO THE DIALOGUE WOULD BE DC REPLY TO LDC POSITION AT NAIROBI. DC STANCE THERE WOULD BE CRUCIAL TO FUTURE SUCCESS OF CIEC. END SUMMARY

1. FOR LAST SEVERAL DAYS ENERGY EXPERTS FROM G-19 CAPITALS HAVE BEEN MEETING AT KLEBER CONFERENCE CENTER TO DRAFT G-19 PAPER ON PRICE ISSUE FOR PRESENTATION IN
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ENERGY COMMISSION AT APRIL 20-28 CIEC SESSION. AT

DINNER ARRANGED BY CANADIAN ENERGY ADVISER APRIL 14, ENERGY ADVISER FROM U.S. AND SEVERAL OTHER MAJOR IEA DELS TOOK OPPORTUNITY TO REVIEW ENERGY COMMISSION ISSUES AND FUTURE PROSPECTS FOR CIEC WITH SEVERAL OF G-19 REPRESENTATIVES, INCLUDING FOLLOWING OFFICIALS: VENEZUELA: ENRIQUE TER HORST (CO-CHAIRMAN PEREZ-GUERRERO'S PERMANENT REPRESENTATIVE TO CIEC) AND DR. WILLIAM LARRALDE (CHIEF, ENERGY AFFAIRS DEPARTMENT, MINISTRY OF MINES AND HYDROCARBONS); IRAN: BAHMAN KARBOSSION (NATIONAL IRANIAN OIL COMPANY); INDIA: MR. BARGAVA (CHIEF OF G-19'S PERMANENT SECRETARIAT IN PARIS). TER HORST WAS PRIMARY INTERLOCUTOR FOR G-19 SIDE, BUT ALL FOUR HAD INTERESTING CONTRIBUTIONS TO MAKE AND NONE TOOK ISSUE AT ANY TIME WITH POINTS MADE BY OTHER THREE, FREQUENTLY GIVING ACTIVE SUPPORT. OVERALL IMPRESSION WAS ONE OF TEAM EFFORT. MAJOR POINTS MADE BY G-19 REPS ARE CONTAINED BELOW.

2. PROGRESS IN CIEC:

G-19 REPS SAID G-19 REACTION TO CIEC TO DATE IS ONE OF SOME DISAPPOINTMENT. MANY LDC'S THOUGHT REAL PROGRESS COULD BE MADE MUCH MORE QUICKLY, AND SUSPICION WAS GROWING THAT DC'S MAY BE USING CIEC SIMPLY TO BUY TIME ON NORTH-SOUTH ISSUES AND TO KEEP OPEC MEMBERS LOCKED INTO DIALOGUE IN EFFORT INCREASE POLITICAL PRESSURE AGAINST OPEC RE ANY FURTHER PRICE INCREASES. WHILE PROGRESS IN ENERGY COMMISSION HAD BEEN SATISFACTORY TO DATE, PACE IN OTHER THREE COMMISSIONS HAD BEEN MUCH TOO SLOW, BASICALLY RETREADING ALREADY FAMILIAR POSITIONS ON BOTH SIDES. SUCH SITUATION WAS UNFORTUNATE BECAUSE MODERATES WITHIN G-77 WERE PRESENTLY IN CONTROL OF CIEC, BUT BALANCE COULD CHANGE DRAMATICALLY IF PROGRESS NOT FORTHCOMING IN REAR FUTURE.

3. LENGTH OF CIEC:

G-77 IS FIRMLY AGREED THAT CIEC SHOULD BE OF LIMITED DURATION. IF THERE REAL DC WILLINGNESS TO ACHIEVE RESULTS, THIS SHOULD BE POSSIBLE WITHIN 12-MONTH TIME FRAME ORIGINALLY ENVISAGED, ALTHOUGH EXTENSION BY 2 OR 3 MONTHS TO MARCH 19, 1977 CERTAINLY WOULD BE POSSIBLE

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IF WARRANTED. IN NO EVENT, HOWEVER, WOULD LDC'S LET CIEC SPIN ON IN PATTERN TYPICAL OF MANY INTERNATIONAL CONFERENCES.

4. RELATIONSHIP OF CIEC TO UNCTAD IV:

G-19 GENERALLY BELIEVES THAT, WITH POSSIBLE

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EXCEPTION OF PRICE DISCUSSIONS IN ENERGY COMMISSION, NOT MUCH OF INTEREST IS LIKELY TO HAPPEN AT APRIL CIEC SESSION. G-19 IS NOW LOOKING AT UNCTAD IV AS CRUCIAL TEST OF REAL DC COMMITMENT TO DIALOGUE. AFTER NAIROBI RESULTS ARE IN, LDC'S WILL DECIDE HOW TO CONTINUE, IF AT ALL, WITH CIEC. THUS, IF THERE NO INDICATION OF REAL MOVEMENT BY DC'S AT NAIROBI, IT WILL HAVE VERY NEGATIVE IMPACT ON CIEC. IN THIS REGARD, IT NOT A QUESTION OF G-19 HAVING TO PROVE TO REST OF 77 AT NAIROBI OR ELSEWHERE THAT CIEC HAS VALUE. IT MORE ACCURATELY A QUESTION OF G-19 ITSELF BEING CONVINCED OF USEFULNESS OF CONFERENCE, SINCE THERE NO DISCREPANCIES BETWEEN 77 AND 19 ON FUNDAMENTAL ISSUES. THE 19 WERE CAREFULLY SELECTED TO REPRESENT ALL NATIONAL INTERESTS AND AREAS IN 77, AND MANDATE OF 19 IS BROAD AND PROVIDES ALL NECESSARY FLEXIBILITY.

5. OUTCOME OF CIEC:

G-19 DESIRES A NEW STRUCTURE FOR INTERNATIONAL ECONOMIC RELATIONSHIPS. ROOF OF NEW STRUCTURE WOULD BE SUPPORTED BY AT LEAST 12 PILLARS DRAWN PRIMARILY FROM KEY PROPOSALS IN NIEO. MOST OF THESE PILLARS, EXCEPT ENERGY, WILL BE DISCUSSED IN ONE FASHION OR ANOTHER AT NAIROBI, WHERE 77 WOULD BE IN DEMANDEUR POSITION. IN

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RETURN FOR CONCESSIONS FROM DC'S IN THESE NON-ENERGY AREAS OF DIALOGUE, G-19 WOULD BE PREPARED MAKE CONCESSIONS IN THAT PART OF DIALOGUE COVERED BY ENERGY COMMISSION AT CIEC. THUS, G-19 SEES ENERGY COMMISSION AS THE LEVER TO PROMOTE OVERALL PROGRESS IN DIALOGUE.

THE "CONCESSIONS" IN ENERGY COMMISSION WOULD BE IN FORM OF PRODUCER GUARANTEES FOR FUTURE STABILITY IN ENERGY MARKET. THESE WOULD TAKE FORM OF: A PRODUCER COMMITMENT THAT OIL PRICES WOULD NOT BE RAISED IN FUTURE AT RATE ANY HIGHER THAN ALLOWED FOR BY A (TO BE NEGOTIATED) INDEXATION ARRANGEMENT, USING JANUARY 1974 REAL OIL PRICES AS BASE FIGURE TO BE PROTECTED; AND, PRODUCER COUNTRY COMMITMENT CONCERNING COMMERCIAL (BUT NOT POLITICAL) SECURITY OF OIL SUPPLY. G-19 "CONCESSIONS" IN ENERGY COMMISSION, TOGETHER WITH DC CONCESSIONS IN OTHER AREAS OF DIALOGUE, WOULD BE COMBINED IN AN INTERLINKED PACKAGE OF POLITICAL COMMITMENTS TO BE UNDERWRITTEN BY MINISTERS. WORKING OUT TECHNICAL AGREEMENTS SHOULD NOT BE ATTEMPTED AT CIEC ITSELF, HOWEVER, SINCE CIEC MUST BE OF LIMITED DURATION FOCUSING ON OVERRIDING POLITICAL ISSUES, AND ANY EFFORT BEGIN DRAFTING TECHNICAL AGREEMENTS WOULD INEVITABLY BOG CIEC DOWN IN DETAIL, RISKING LOSS OF ALL-IMPORTANT POLITICAL MOMENTUM.

6. FOLLOW-ON TO CIEC

IT WAS IMPOSSIBLE TO SAY AT THIS POINT WHETHER ANY CIEC FOLLOW-UP, OR PERMANENT FOLLOW-ON MECHANISM, WHETHER IN ENERGY AREA OR ACROSS THE BOARD, WOULD BE DESIRABLE. ANY DECISION ON THIS WOULD CLEARLY BE A FUNCTION OF SUCCESS OF CIEC ITSELF. HOWEVER, IN EVENT THERE WERE A FOLLOW-ON MECHANISM TO THE ENERGY COMMISSION IT WOULD IN NO EVENT BE MANDATED TO ALLOW FOR DISCUSSION OF OPEC PRICING DECISIONS, SINCE THIS WILL CONTINUE TO BE MATTER ENTIRELY FOR OPEC PURVIEW ALONE. (COMMENT: THERE IS AN INTERNAL INCONSISTENCY HERE IN G-19 POSITION SINCE, IF CONFERENCE "SUCCESSFUL" AND INDEXATION ARRANGEMENT AGREED TO AS G-19 HOPE, THEN ONE OF FUNCTIONS OF ANY FOLLOW-ON ENERGY MECHANISM OBVIOUSLY WOULD HAVE TO BE CONTINUED SURVEILLANCE OF THE INDEXATION AGREEMENT. LIKELY EXPLANATION OF APPARENT

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INTERNAL INCONSISTENCY IN G-19 STATEMENTS, WHICH

WERE MADE BY DIFFERENT G-19 REPS, IS THAT G-19 ACTUALLY BELIEVES FOLLOW-ON CONSULTATIVE MECHANISM IN ENERGY IS LIKELY POLITICAL REALITY IN ANY EVENT, THOUGH INDEXATION ARRANGEMENT MAY NOT IN FACT BE AGREED ON. IN THIS EVENT, THEY PROBABLY WISH STAKE OUT A POSITION UNDERWHICH CONSULTATIVE MECHANISM WOULD NOT HAVE MANDATE RELATING TO OPEC PRICING DECISIONS.)

G-19 DOUBTFUL WHETHER PAPER PROMISED BY CO-CHAIRMAN TAHER AT LAST COMMISSION MEETING CONCERNING G-19 ASSESSMENT OF FUTURE OUTLOOK OF OIL MARKET WOULD BE FORTHCOMING AT APRIL SESSION. TWO OF MORE MAJOR PROBLEMS CONCERNED REACHING AGREEMENT ON MOST LIKELY ECONOMIC GROWTH RATE FIGURE FOR LDC'S AND ON COEFFICIENT EXPRESSING MOST LIKELY FUTURE RELATIONSHIP BETWEEN LDC ENERGY CONSUMPTION AND DOMESTIC ECONOMIC PRODUCTION. LATTER IS SENSITIVE POINT FOR LDC'S SINCE ONE OF KEY POINTS MADE BY G-19 AT MARCH CIEC WAS THAT

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LDC ENERGY CONSUMPTION IN RELATION TO ECONOMIC PRODUCTION MUST BE MUCH HIGHER IN FUTURE THAN IT HAS BEEN IN PAST IF DEVELOPMENT PROCESS IS TO BE SUCCESSFUL.

8. INTERNATIONAL ENERGY INSTITUTE PROPOSAL:

G-19 HAS NO OBJECTION TO PROPOSAL IN PRINCIPLE BUT IS AWAITING DETAILED DESCRIPTION OF SPECIFICS.

9. CIEC EFFECT ON OPEC PRICING DECISION:

TER HORST SAID OPEC DECISION AT BALI WOULD BE MADE INDEPENDENT OF DEVELOPMENTS IN CIEC, SINCE NOTHING HAD YET BEEN AGREED AT CIEC WHICH WOULD IMPACT ON THESE DECISIONS. TER HORST FORESAW "TOKEN" PRICE "ADJUSTMENT" TO HELP RESTORE PRODUCER PURCHASING POWER LOST SINCE "FAIR PRICE" ESTABLISHED IN FEBRUARY 1974. ADJUSTMENT WOULD BE NO MORE THAN 10 PERCENT AT MOST. IN ADDITION TO ECONOMIC JUSTIFICATION, INCREASE WAS NECESSARY SINCE CONTINUED FREEZE ON PRICES WOULD BE INTERPRETED BY DC PARTICIPANTS IN CIEC AS SIGN OF OPEC WEAKNESS, WITH CONCOMITANT DAMAGING EFFECT ON DC RESPONSIVENESS IN DIALOGUE. ALSO, A CONTINUED FREEZE WOULD BUTTRESS SAUDI POSITION ON PRICING ISSUE. FOR THESE REASONS "NOMINAL" INCREASE WAS NECESSARY.

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10. COORDINATION WITHIN G-19

G-19 HAD BEEN PLEASANTLY SURPRISED AT DEGREE OF SOLIDARITY IT HAD DEMONSTRATED SO FAR AT CIEC. THIS WAS DUE TO EXTENSIVE PRIOR COORDINATION BEFORE CIEC MEETINGS, MOST IMPORTANTLY TO AGREEMENT ON BASIC G-19 "BIBLE" DEVELOPED IN TWO-WEEK COORDINATION SESSION IN JANUARY. NO COMPARABLE DOCUMENT APPEARED TO EXIST ON DC SIDE. G-19 COOPERATION WAS EVIDENCE OF "NEW MATURITY" IN THIRD WORLD. NON-OIL PRODUCING LDC'S WERE FIRMLY CONVINCED THAT ONLY WAY TO ADVANCE THEIR OWN INTERESTS WAS TO MAINTAIN SOLIDARITY WITH POSITIONS TAKEN BY OIL PRODUCERS, EVEN CONCERNING OIL PRICE INCREASES. PRODUCERS IN RETURN WERE WORKING HARD TO EXPAND PROGRAMS TO COMPENSATE FOR IMPACT OF PRICE INCREASES ON LDC'S, EITHER THROUGH EXPANDED AID PROGRAMS OR INCREASED USE OF LONG-TERM REPAYMENT TYPE AGREEMENTS WHICH RESULT IN EFFECTIVE LOWERING OF REAL PRICE OF OIL TO LDC'S.

11. COMMENT:

MISOFF WAS STRUCK BY WELL-COORDINATED AND ARTICULATE PRESENTATION OF VIEWS BY G-19 REPS (WHO HAD BEEN INVITED AT TER HORST'S SUGGESTION) AND BY EXPLICIT NATURE OF SIGNAL BEING COMMUNICATED CONCERNING BROAD OUTLINES FOR FINAL CIEC PACKAGE. REFERENCE IN PARTICULAR TO TRADE-OFFS BETWEEN ENERGY COMMISSION AND USE OF DIALOGUE WAS INTERESTING, INASMUCH AS THIS CONFIRMS EARLIER FLEETING REFERENCE AT LUNCHEON JUST AFTER MARCH CIEC, WHERE HEAD OF

VENEZUELAN ENERGY DELEGATION (GIL) NOTED THAT PURPOSE OF CIEC WAS TO NEGOTIATE A PACKAGE, AND SOME FORM OF AGREEMENT ON PRICE INDEXATION IN ENERGY COMMISSION WOULD BE KEY G-19 "CONCESSION" IN THIS REGARD. TO BEST OF OUR KNOWLEDGE, HOWEVER, THESE ARE ONLY OCCASIONS SUCH EXPLICIT LINKAGE HAS BEEN ARTICULATED.

12. DEPARTMENT MAY WISH REPEAT ABOVE CABLE TO OTHER POSTS AS DESIRED.
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